CAN THE UK GOVERNMENT BE 'WORLD-LEADING' IN BOTH TRADE AND CLIMATE POLICY?

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KEY POINTS

- To become a world leader in trade and climate policy the UK needs to develop an integrated strategy that enhances areas of mutual supportiveness and addresses areas of potential conflict.

Enhancing mutual supportiveness:

- UK climate legislation does not currently include trade-related emissions. Factoring in aviation and shipping would help to address this problem.
- The UK's approach to integrating climate into its new free trade agreements (FTAs), as well as its 'continuity agreements' with former EU FTA trade partners, is inconsistent. Notably, continuity agreements are a lost opportunity to update existing trade agreements in order to reflect the net-zero emissions by 2050 target.
- Subsidies for fossil fuels should be transparent and reduced, and exceptions to carbon taxes narrowed or removed to provide coherence with both WTO rules and the net-zero target.
- The UK has unilaterally reduced tariffs on a number of environmental goods but has maintained relatively high EU tariffs on bicycles and hybrid electric vehicles, which could be further reduced.

Addressing areas of potential conflict:

- A green recovery from COVID-19 provides an impetus to introduce broader and higher carbon taxes, but these could have a negative impact on UK firms and push the UK towards imposing commensurate carbon taxes on imported products. To avoid this potential area of conflict with WTO obligations and/or relationships, the UK needs to raise ambition for carbon pricing in the WTO arena and in its FTA negotiations.
- Barring an increase in global ambition to accelerate climate-friendly manufacturing, probably more trade restrictions will be needed to achieve a net-zero target. The UK will need to move towards or maintain trade preferences that support the target.
- Current UK green subsidies are likely to be WTO-compliant but fall short of the ambition needed to achieve the net-zero target, but upping ambition also increases the risk of WTO non-compliance. This underscores the need to replace disciplines provided under the EU State Aid framework.

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INTRODUCTION

The UK Government has clearly indicated its ambition for global leadership in two policy areas – liberal, open trade and climate change mitigation – but are these goals compatible? Whilst the WTO and trade agreements aim to facilitate free movement of goods and services and restrict trade-distorting subsidies, climate policy requires governments to pick 'winners' – e.g. renewables over petroleum-based energy – and restrict high-carbon goods. The UK has been a champion of market-based approaches to environmental regulation, but its current trajectory is not sufficiently ambitious to achieve its net-zero emissions by 2050 target, suggesting that more intervention will be required. In some areas, such intervention sits uncomfortably with the UK's drive to negotiate or re-negotiate over 40 free trade agreements (FTAs) and champion open multilateral trade. In others, the UK can use trade policy to facilitate trade and production of low-carbon goods and services.

In this Briefing Paper, we examine the coherence of UK trade and climate goals in response to three questions:

1. Has the UK Government set out a clear strategy for integrating trade and climate policy?
2. Is the UK Government acting on areas of mutual supportiveness?
3. Is the UK Government addressing areas of potential conflict?

We find room for improvement in relation to all three questions. In answer to the first question, we identify a lack of cross-cutting strategy in UK climate legislation and in its approach to free trade agreements. On the second question, we suggest the UK reforms its approach to fossil fuel subsidies and builds on its efforts in regard to environmental goods. And on the third question, we underscore the lack of ambition of current UK climate mitigation measures and lack of transparency around future measures, and discuss the need for an ambitious UK approach to carbon pricing.

SETTING OUT A CLEAR STRATEGY

a) Core legislation does not integrate trade-related emissions into the climate target

One factor that hampers efforts to integrate trade and climate strategy is that the domestic legislation in which the net-zero target is enshrined, the UK Climate Change Act, does not include trade-related emissions. Aviation, shipping and international production and consumption emissions are not measured in its carbon budgeting. This is in line with the approach of the UNFCCC and Paris Agreement, but some countries – including Scotland – incorporate aviation and shipping in their targets and the UK's independent Committee on Climate Change (CCC) has long recommended that England follow its lead.

Aside from addressing aviation and shipping emissions, the domestic focus of UK legislation has translated into limited CCC scrutiny of the trade policy measures required to meet the net-zero target. But the domestic areas in which the CCC calls for the most urgent action to meet a net-zero target clearly implicate trade policy. These include the phase-out of petrol and diesel vehicles, the incentivisation and installation of low-carbon heating, and the decarbonisation of industry.[1] Implementing these measures will require subsidies, which are subject to WTO notification and challenge, and will need to address competitiveness concerns resulting from measures which aim to restrict higher-emissions imports, such as banning the import of certain products, imposing UK energy efficiency requirements on imported products, or even taxing imported products. This demonstrates how meeting even a purely domestic emissions reduction target will likely require new controls on trade.

To meet its net-zero target, the UK needs to encourage trade and investment in low-carbon goods, services and technologies, and discourage trade and investment in high-carbon goods, services and technologies. This target should inform its approach to tariffs and trade preferences, including multilateral tariffs and FTAs. Coordinating climate and trade objectives in these areas will not happen automatically. In the absence of legislation, setting out a clear, cross-cutting policy is all the more important.

b) UK free trade agreements diverge in approach and ambition

A particularly important area for policy coherence is UK FTAs.[2] The UK is currently re-negotiating the FTAs which it was party to as an EU Member State as well as pursuing new FTA negotiations with Australia, New Zealand, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) Parties and the United States.

1 CCC, Net Zero: The UK's contribution to stopping global warming (May 2019), pp11-13.
2 See also Aldersgate Group, Aligning the UK's trade policy with its climate and environmental goals (June 2020). Available at: https://www.aldersgategroup.org.uk/asset/1671.

TABLE 1: EXISTING CONTINUITY AGREEMENTS AND THEIR ENVIRONMENT AND CLIMATE CHAPTERS

Trade Partner	Environment	Climate Change
Chile	Yes – From 2002 EU Agreement	No
Andean Countries	Yes - Approach incorporated from 2013 EU Agreement	Yes
Central America	Yes - Approach incorporated from 2012 EU Agreement	Yes
Eastern and Southern Africa	Yes – From 2007 EU Agreement	No
Georgia	Yes – From 2016 EU Agreement	Yes
Iceland/Norway	No	No
Israel	Yes – From 2000 EU Agreement	No
Jordan	Yes – From 2002 EU Agreement	No
Lebanon	Yes – From 2002 EU Agreement	No
South Korea	Yes – From 2011 EU Agreement	Yes
Switzerland	Yes; includes the possibility to update environmental provisions (Article 8)	No

At the time of writing, the draft Trade Bill is being debated in Parliament. It establishes the process by which EU FTAs are re-negotiated, referred to as 'trade continuity', and also provides a legislative footing for UK trade remedies and membership of the WTO Government Procurement Agreement. The Bill makes no reference to incorporating or reflecting environmental or climate change commitments. As the following analysis of the treaty texts shows, this is borne out in continuity agreements themselves.[3] Their emphasis has been on expediency, to ensure that companies will not face new trade barriers after the end of the transition period. As such they have copy-pasted EU language on trade and environment that is in some cases years out of step with the EU's current approach of including dedicated Trade and Environment chapters. Agreements with no or badly outdated environment and climate provisions are shaded in grey in the table above.

The problem of inheritance has clearly hampered UK innovation in this area. If these provisions are not updated, it is a lost opportunity to integrate the net-zero target into UK FTAs, which cover a substantial portion of UK trade. Indeed, even relatively recent EU FTAs are arguably outdated, evidenced by the fact that the EU is reforming its approach to better reflect its own net-zero target.[4] There are also unanswered questions about how the UK intends to operationalise these environmental commitments, which require new institutional arrangements. This is an area to watch.

With respect to future FTAs, the UK also lacks a cross-cutting strategy on climate. There is no post-Brexit legislation specifically pertaining to the negotiation of new UK FTAs, but the most recent strategy document from the Department for International Trade, 'Processes for making free trade agreements after the United Kingdom has left the European Union,' makes no mention of climate change.[5]

3 Available at: https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries.

4 European Commission, 'The European Green Deal', COM(2019) 640, pp 20-21. Available at: https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf.

5 Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/782176/command-paper-scrutiny-transparency-27012019.pdf.

The UK Government has released strategy documents for its negotiations with the EU, the US, New Zealand, Australia and the CPTPP. Except for the CPTPP and EU strategies, all explicitly reference the UK's net-zero target. The EU strategy references the Paris Agreement rather than the net-zero target and states that climate change will be dealt with in a standalone Energy Agreement which has not yet been produced.[6] This seems excessively narrow given that climate commitments have environmental and trade impacts and both Parties share a net-zero target. Aside from this, FTA strategies seem to be calibrated to the partner's commitment to climate change mitigation. For example, the New Zealand strategy calls for the FTA to support both countries' net-zero commitments and set 'a high standard for clean growth in future trade agreements'.[7] The Australian strategy contains a more circumscribed commitment to 'seek sustainability provisions, including on environment and climate change, that meet the ambition of both parties on these issues'.[8] The US strategy simply states that the UK will aim to use FTAs to support its delivery of climate commitments.[9] Whilst some calibration is a realistic approach for the UK to take in order to successfully conclude these FTAs, the UK must ensure that these FTAs at the very least do not undermine its target, and some of the objectives outlined very much lack in ambition.

FTAs have the potential to remove trade barriers on energy-efficient goods and services, align commitments to green subsidies and reduce fossil fuel subsidies, as well as coordinate carbon pricing mechanisms, all reinforcing action towards net-zero targets. There has been some recent progress in tying in climate ambition with FTAs. EU FTAs with Singapore, Japan and Canada have included such provisions, although they are generally non-binding elements. The EU's negotiating objectives for the UK include provisions on equivalence in carbon pricing. But countries may also use FTAs to secure favourable terms for their high-carbon exports. The US has refused any mention of climate change in any future agreement with the UK. The UK could aim for climate-friendly FTAs by including 'climate red lines' in its negotiations, but when potential partners are not willing to integrate trade and climate policy, this will be an area of hard choices for the UK Government.

6 Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868874/The_Future_Relationship_with_the_EU.pdf, p23.
7 Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901870/uk-strategy-uk-nz-free-trade-agreement.pdf, p7.
8 Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901886/uk-strategy-australia-free-trade-agreement.pdf, p12.
9 Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/869592/UK_US_FTA_negotiations.pdf, p23.

Recommendations for setting out a clear strategy:

- *Legislate to include shipping and aviation in England's net-zero climate targets.*
- *Develop a clear, cross-cutting policy strategy to integrate net-zero targets into UK trade policy.*
- *Produce a cross-cutting strategy ensuring UK FTAs, including continuity agreements, contain reference to upholding the UK's net-zero target.*
- *Introduce a 'red line' of compliance with the Paris Agreement at the very minimum to ensure new FTAs do not undermine the UK's domestic target.*

ACTING ON AREAS OF 'MUTUAL SUPPORTIVENESS'

a) Fossil fuel subsidies are non-transparent

The G20, G7 and the European Commission have all pledged to phase out fossil fuels subsidies. Such action would be a win-win for trade liberalisation and reaching net-zero targets but countries have made limited progress on achieving this goal: one tracker found the UK was top in pledges, but bottom in transparency among the G7 countries.[10] The UK claims that it does not provide any subsidies for fossil fuels[11], but other analyses by the European Commission and the OECD suggest it does.[12] This is due to different approaches to calculating subsidies. The Commission's report, for example, found the UK to be the largest provider of support for fossil fuels in the EU at €11.6 billion per year (in contrast to €7.76 billion for renewables), highlighting tax reliefs for energy-intensive industry and UK households.[13]

10 S. Whitley et al, G7 fossil fuel subsidy scorecard: Tracking the phase-out of fiscal support and public finance for oil, gas and coal (ODI 2018), p3.
11 The 2019 climate policy plan states that the issue of phasing out energy subsidies is 'not applicable' to the UK. BEIS, The UK's draft integrated national energy and climate plan (NECP) (2019), pp32-34. In response to a FOI request, DECC stated that the UK has 'no fossil fuel subsidies' on the basis of its definition of fossil fuel subsidies as 'government action that lowers the pre-tax price to consumers to below international market levels.' DECC, FOI 2015/15308. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/455512/FOI_2015_15038_PUB.pdf.
12 Trinomics, Study on energy prices, costs and subsidies and their impact on industry and households (Trinomics 2018). Available at https://ec.europa.eu/energy/sites/ener/files/documents/energy_prices_and_costs_-final_report-v12.3.pdf. OECD, Fossil fuel support country note: United Kingdom (April 2019). OECD inventory of fossil fuel subsidies GBR (figures to 2017). Available at https://stats.oecd.org/Index.aspx?DataSetCode=FFS_GBR.
13 Trinomics, ibid, p268.

Rather than a policy of reducing support for fossil fuels, the UK currently has a strategy of 'maximum economic recovery' for domestic oil and gas production, including the development of shale gas.[14] This stands in contrast to the position set out in the European Commission's climate strategy, for example, which defines energy security in terms of 'a decreased reliance on gas and oil imports.'[15]

WTO subsidy rules do not treat renewable energy or fossil fuel subsidies differently, but only renewables subsidies have provoked WTO disputes. This is likely to be due to the fact that fossil fuel subsidies often benefit consumers rather than producers, and the glass house effect. But reducing fossil fuel subsidies would improve compliance with WTO rules and is coherent with climate policy.

b) A positive step for policy coherence: liberalisation of environmental goods

A bright spot in the coherence of UK trade and environment policy is the UK's unilateral decision to liberalise more tariffs on environmental goods. Liberalisation of environmental goods and services, including those supportive of climate change mitigation, has long been recognised as mutually supportive for trade and the environment. It is included as a negotiating item in the current Doha Round at the WTO, which has evolved into a plurilateral negotiation toward an Environmental Goods Agreement including major emitters and exporters China, the US and the EU. Whilst negotiations have stalled, a helpful analysis from IISD[16] reveals that the UK Government has provided a fairly generous unilateral offer. It maintains tariff-free access provided under the EU and offers additional tariff reduction or elimination on almost 200 identified environmental goods. However, the UK has maintained the relatively high EU tariff of 14% on bicycles and 10% on hybrid-electric passenger vehicles. This has the potential to undermine its subsidy support for Ultra-Low Emissions Vehicles and transport-related climate change targets.

Recommendations for acting on areas of mutual supportiveness:

- *The UK should reform its approach to fossil fuel subsidies by improving transparency in line with both WTO rules and the UNFCCC framework.*
- *The UK can build on unilateral progress in the liberalisation of environmental goods and services by continuing to engage with the plurilateral Environmental Goods Agreement negotiations and further liberalise bicycles and hybrid-electric passenger vehicles.*

ADDRESSING AREAS OF POTENTIAL CONFLICT

a) Climate change mitigation subsidies in the global context

The COVID-19 pandemic has led to an unprecedented reduction in global carbon emissions coupled as it has been with a fall in economic output. But reaching the targets set out in international and UK climate law needs sustained and substantial cuts in emissions year after year that are not associated with health and welfare crises.

Because the Paris Agreement does not determine which policy tools are acceptable for achieving the climate target, the WTO has become a primary international forum regulating climate measures, and renewable energy subsidies have resulted in a number of disputes. Under WTO rules governing subsidies, countries can retaliate directly against some subsidies by applying tariffs or challenging them directly through disputes. Such 'actionable' subsidies must be aimed at specific industries, sectors or regions, and provide a financial contribution that confers a benefit, which effectively means better-than-market conditions (Agreement on Subsidies and Countervailing Measures, Articles 1 and 2). The concept of 'financial contribution' casts a broad net, covering not only grants and loans but also tax exemptions and R&D. These categories together encompass many policy instruments used to promote renewable energy both in the UK and globally. Compounding this problem is that the SCM Agreement does not permit countries to argue that subsidies are WTO-compatible on the basis that they pursue environmental goals. Though many have argued for reform,[17] there is currently no indication that WTO Members will negotiate exceptions for subsidies facilitating trade in low-carbon goods and services.

A factor that complicates, but not necessarily decreases, the potential for WTO action against UK green subsidies is an increasingly low level of global

14 OGA, The Maximising Economic Recovery Strategy for the UK (BEIS 2016).
15 European Commission, A Clean Planet for All: A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy (COM(2018) 773 final), p8.
16 D Grozoubinski, G Riddell, R Steenblik, 'The U.K.'s Global Tariff: Will a new broom sweep green?' (IISD 11.05.20). Available at: https://www.iisd.org/blog/uk-global-tariff-new-broom.
17 Eg, S. Shadikhodjaev 'Renewable Energy and Government Support: Time to 'Green' the SCM Agreement?' (2015) 14(3) World Trade Review 479; L. Rubini, 'Ain't Wastin' Time No More: Subsidies for Renewable Energy, The SCM Agreement, Policy Space, and Law Reform,' (2015) 15(2) J Int Econ Law 525.

adherence to WTO rules in this area,[18] and the fact that the WTO's Appellate Body is currently unable to function due to the US blocking the appointment of new judges. Despite the fact that they may well be living in glass houses whilst throwing stones, countries will likely not hesitate to apply retaliatory tariffs to compensate for alleged harm from UK green subsidies, emboldened by the lack of a strong referee. However, it is unlikely that existing UK subsidies will prompt much retaliation; they are structured to maximise the role of the private sector in providing incentives, thus reducing the scope for complaint.

b) Current UK climate change mitigation subsidies are not ambitious or transparent enough

UK Government policy is currently set out in two outdated documents that do not account for the amended net-zero target or Covid-19: the 2017 Clean Growth Strategy and the 2019 UK Draft Integrated National Energy and Climate Plan. The need for increased ambition is self-evident. This is borne out by the CCC, which concluded that the UK is not even on track for its previous 80% emissions reduction target.[19] This means that the UK will need to increase its ambition; to do so without creating problems for itself in the WTO, it would be useful to maintain internal disciplines and transparency in its subsidies framework as it leaves the EU. To illustrate, we briefly examine (i) price supports for renewable energy, which bring down costs and create consumer incentives for renewables; and (ii) green innovation investment.

(i) Price supports for renewable energy

The UK has been a leader in the deregulation of energy markets and the promotion of 'subsidy-free' renewables. An example of this approach is the Smart Export Guarantee, which involves energy companies setting prices paid for small-scale renewables generation rather than the UK Government. Another example is Contracts for Difference for low-carbon electricity production, which are priced by competitive auction. A further key price support subsidy, the Renewable Heat Incentive, has simply not been taken up to the extent the Government expected. Here, it is not compliance with WTO rules that is the main concern - the Appellate Body has suggested that competitive bidding makes infringement of subsidy rules unlikely[20] - but lack of ambition. With the UK's proportion of renewable energy one of the lowest in Europe,[21] the CCC and others have pointed to frequent changes and slow policy development as inhibiting the sector, suggesting the need for a stronger and more durable subsidies framework.[22]

(ii) Green innovation investment

A notable element of the Clean Growth Strategy is its commitment to £2.5 billion of investment to low carbon innovation. Government grants and investments targeted to specific companies to support development of clean energy technology is clearly aimed at an industry or group of industries and provides a benefit. Existing UK schemes, such as the Energy Entrepreneurs Fund, integrate EU State Aid rules: a transparent and competitive bidding process sets out cost criteria and manages investment thresholds. Such safeguards make it more likely that grant schemes will not trigger WTO complaints.

The UK Government has provided little information about its approach to subsidies post-Brexit, and there is some suggestion that this will be a lightly-regulated area.[23] This, coupled with an increase in subsidies to meet the net-zero target, could increase the risk of challenges in the WTO. The UK Government's hasty action to rescue failing airline FlyBe in January 2020 by waiving its air passenger duty payments is concerning. It showed a willingness to undermine the net-zero target, which will require increasing taxes on airlines, and prompted competitor International Airline Group to lodge a complaint with the European Commission for violation of EU State Aid rules.[24] It is unclear whether or how the UK will replicate State Aid controls in future investment, but to avoid complaints and retaliation it is important that it does so.

18 S. Evenett and J. Fritz, 'Jar Jar not War War: Prioritising WTO reform options' (Vox 13.06.19). Available at: https://voxeu.org/article/jaw-jaw-not-war-war-prioritising-wto-reform-options.
19 CCC, Reducing UK emissions – 2020 Progress Report to Parliament (June 2020).
20 Appellate Body Report, Canada- Certain Measures Affecting the Renewable Energy Sector ('Canada-Renewable Energy') and Canada-Measures Relating to the Feed-in Tariff Program (Canada – Feed-in Tariff Program), WT/DS412/19 and WT/DS426/19, adopted 24 May 2013, para. 5.228.
21 Available at: https://ec.europa.eu/eurostat/tgm/graph.do?tab=graph&plugin=1&language=en&pcode=t2020_31&toolbox=type.
22 CCC, An independent assessment of the UK's Clean Growth Strategy: from ambition to action (January 2018). J. Timperley, 'Six charts show mixed progress for UK renewables' (Carbon Brief 20.07.18). Available at: https://www.carbonbrief.org/six-charts-show-mixed-progress-for-uk-renewables.
23 P. Foster and J. Pickard, 'Cummings leads push for light-touch UK state-aid regime after Brexit', July 27, 2020, Financial Times. Available at: https://www.ft.com/content/e29430c7-9dae-440e-8093-74f705ce62c3.
24 M. Acton, 'IAG's Flybe complaint sets stage for Brexit bust-up over state aid and climate'. MLex, 17 January 2020. Available at: https://mlexmarketinsight.com/insights-center/editors-picks/area-of-expertise/brexit/iags-flybe-complaint-sets-stage-for-brexit-bust-up-over-state-aid-and-climate.

c) UK carbon pricing is still not high or consistent enough to meet the net-zero target

UK carbon pricing operates both by participation in the EU emissions trading scheme (ETS) and a domestic carbon tax, the Carbon Price Floor. Carbon pricing schemes differ greatly around the world and may result in industries in countries with high carbon taxes facing pressure from imports from countries with lower tax burdens. The future shape of UK carbon pricing is not yet confirmed[25] but the balance between an effective carbon tax and its impact on competitiveness for high-emitting industries is not easy to achieve.

This has led the UK, in line with the EU's approach, to offer state aid and free emissions allowances for energy-intensive industries. Although never challenged at the WTO, this should be interpreted as an actionable subsidy. Raising or broadening carbon taxes is, however, necessary. Recent analysis has shown that a carbon price of £40/tCO2 would be required for the UK to reach its net-zero target[26], which is significantly higher than the EU ETS and the UK Carbon Price Floor. Covid-19 provides an 'opportunity' to do this whilst demand for conventional fuel is low and would prevent an emissions rebound, contributing to a green recovery; but it risks increasing the asymmetry between the UK and other countries.

One solution to the carbon pricing problem is border carbon adjustment (BCA): import fees for countries with low or no carbon pricing mechanism. BCA has long been discussed in the EU and is now included as an option in its Green Deal if 'differences in levels of ambition persist.' The EU has not set out how BCAs might be implemented and compliance with WTO rules rests on how they are designed in order to avoid running contrary to the National Treatment and Most Favoured Nation principles. But WTO compliance risks lowering its effectiveness in incentivising a reduction in emissions both domestically and internationally. Here, WTO compliance may indeed conflict with UK climate policy. This friction would be removed, however, if there was international agreement on a global or regional carbon pricing mechanism.

Recommendations for addressing areas of potential conflict:

- *The UK must reassess what subsidies are required for its new net-zero target and increase its current level of ambition.*
- *To avoid attracting WTO complaints and retaliatory tariffs, the UK must introduce internal controls on subsidies and transparency in its approach.*
- *To meet its climate target, the UK will need to adopt a more ambitious approach to carbon pricing. Coordination with the EU on carbon pricing will be useful to mitigate negative impacts for UK exporters.*

CONCLUSION

Assessing UK policies that fall at the intersection of trade and climate is complicated by a number of unknowns. These include the UK's future approach to subsidies, which remains largely undefined, and the extent to which the UK remains aligned with EU climate policy across a range of areas after the transition period. With respect to the likelihood of trade conflict, there are global systemic factors over which the UK has little control. These include the weakening of transparency and dispute settlement mechanisms in the WTO, which reduces the efficacy of the WTO as an international referee whilst increasing the likelihood of trade retaliation, as well as the extent to which countries move to respond to the urgency of climate change. Strong global ambition to reduce emissions lessens the political and economic motive for trade disputes in relation to UK climate policy.

Despite these uncertainties, this survey suggests that more coordination will be required to integrate the net-zero target into UK trade policy. In some areas, like fossil fuel subsidies and environmental goods and services, trade and climate policy goals pull in the same direction; in others, like subsidies and carbon taxes, they may lead to conflict. In both cases, a principled approach to integrating the net-zero target into UK trade policy is preferable to an *ad hoc* or incoherent one.

25 The latest proposal was announced in June 2020. Available at: https://www.gov.uk/government/news/new-emissions-trading-system-proposal-would-see-uk-go-further-in-tackling-climate-change.
26 Grantham Research Institute on Climate Change and the Environment, How to price carbon to reach net-zero emissions in the UK (May 2019).

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FURTHER INFORMATION

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The UK Trade Policy Observatory (UKTPO), a partnership between the University of Sussex and Chatham House, is an independent expert group that:

1) initiates, comments on and analyses trade policy proposals for the UK; and

2) trains British policy makers, negotiators and other interested parties through tailored training packages.

The UKTPO is committed to engaging with a wide variety of stakeholders to ensure that the UK's international trading environment is reconstructed in a manner that benefits all in Britain and is fair to Britain, the EU and the world. The Observatory offers a wide range of expertise and services to help support government departments, international organisations and businesses to strategise and develop new trade policies in the post-Brexit era.

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